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OHIO'S FARM FINANCIAL CRISIS

An Educator's Point of View

By

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Introduction

Recently much press, radio, and TV coverage, local and national, has been focused on farms in Ohio that are experiencing financial difficulty, to the point of being sold on the court house steps. For sure the situations are real and painful. Painful, not only to the farm families, but to others around them, as evidenced by the support and concern of their neighboring farmers and agri-business community. It is important, however, that the problem be viewed in a perspective that helps us look at the total situation. Focusing attention on isolated conditions of economic strife can lead to unwarranted conclusions about the situation in general. Such conclusions can and will mask the real problem and can lead decision-makers to attempt solutions that will only exacerbate the real problem.

Scope of the Situation

Let's look at some real and not uncommon Ohio situations that will help describe the range of the current situation.

Situation 1: Financial Distress

A family farm carrying approximately $1.5 million of debt with the ability to service less than half of that and just receiving notification requesting payment be made that will most likely result in a foreclosure action and bankruptcy filing within the month.

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Situation 2: Financially Sound

> Another family agonizing and losing sleep because of money that it found necessary to borrow; very disturbed because "the farm has been in the family for three generations and this is the first dollar the farm has ever had to borrow."

Other examples of either extreme can be found. Of course most situations will be somewhere in between. It is, however, important that we keep things in perspective. It is my best judgement, after talking with numerous farmers and lenders, that it is only a small portion of our farmers that are in a "crisis" situation at this time. Make no mistake, it is fully appreciated and understood that all of our grain farmers are feeling the heat of a much reduced cash flow and that the fewness of those in "crisis" situations does not diminish the severity of their anguish. However, to rationally deal with the problem, we must also be cognizant of the fact that while some farmers are electing bankruptcy or are being served with foreclosure notices, many others are weathering the storm and still others are simply depositing less in their savings accounts. Table 1 can help us put the situation in perspective.

The table warrants explanation. Keep in mind we are talking about all census farms (those that sell $1000 or more of product) and we are describing a January 1 balance sheet situation; i.e., those farmers with no debt may have used credit throughout the year but had it paid off by January 1. The numbers indicate, in my best judgement, that about three percent of all Ohio farmers are in such difficult financial situations that a return to $3.00 corn would not solve their problem; these farms would consist of situations that are too highly leveraged and mismanaged. Another two percent can be described as farms that creditors have already carried for a year or two because of poor weather and crops and near the term outlook will not

Table 1: GENERALIZED FINANCIAL SITUATION
OHIO FARMERS
JANUARY 1983

Financial Description	Percent of Farms
Zero Debt	50
With Debt	
Survivors	25
Crisis if low prices persist beyond 1983	15
Crisis: Creditors will carry in 1983	5
Crisis: Creditors will not carry in 1983	2
Unsalvageable even with higher prices	3

allow them to become current in the foreseeable future. Another five percent are in a crisis situation but lenders will carry them during 1983 because their situations have not deteriorated to the point of being unsalvageable. The next group, 15 percent of the total, are in critical economic balance; they have had adequate reserves to weather the storm to now, but will be in severe difficulty if the current situation continues beyond 1983. The last group with debt (25 percent) will be able to survive current conditions because their debt load is low enough to allow debt payments to be met by decreasing other expenses and family living.

Strength and Weakness

The information in Table 2 helps put the problem in proper perspective by indicating the strength and weakness of Ohio's farming community. Ohio's

Table 2: FARM FINANCIAL CONDITION
SELECTED CHARACTERISTICS
OHIO, 1978-1983

ITEM	1978	1979	1980	1981	1982 1/	1983 2/
% Equity	87	88	88	87	84	82
Equity ($ billions)	23	27	31	32	27	25
Cash Reserves ($ millions)	441	257	184	198	183	175
Net Farm Income (% of Gross)	18	23	12	6	5	6
Net Farm Income (% of Debt)	20	25	14	6	6	7

1/ Preliminary USDA estimates

2/ Educated guesses

farming industry has a strong balance sheet, even though it exhibits less strength today than it did only two years ago. An equity situation of 82 percent or even 80 percent makes farming the envy of nearly every other business sector of our economy. The recent decline to the projected 82 percent equity results from lower crop, machinery, and real estate prices. As an industry Ohio's farms are a safe place for debt capital (i.e., the assets are there to cover additional debt without difficulty). There are of course those isolated instances where debt now exceeds assets that are causing concern and stress both on the farms and in the lenders' offices.

Farmers themselves are not so much concerned with the percent equity discussed above. They bemoan the approximate $7 billion loss in equity they have experienced during the past two years and wonder when will it end and if they should sell now, before its all gone. Still, when all is said and done, Ohio agriculture in total has a strong balance sheet.

The weakness, and the issue of primary concern to farmers and lenders, is the sharply reduced cash flow, as evidenced by the numbers in Table 2. The first evidence of a cash flow problem is exhibited by the fact that farmers, to meet cash commitments, have reduced their cash reserves significantly during the past few years. Some of the reduction during the late 70's was the result of transferring cash to non-cash assets, as land and equipment were purchased. The decline since 1981, however, has largely been the result of reduced cash income. Notice the decline in net farm income as a percentage of gross since 1979. This is a measure of the farming community's ability to pay principal debt and provide for family living. Another indicator of the current and impending "cash crisis" is the reduction in net farm income as a percent of total debt. Both of these measures are expected to improve slightly in 1983 because of lower interest rates and a "pay-down" in debt. The weakness in Ohio agriculture is cash flow. This is cause for concern; first for those farmers and lenders already engulfed and secondly, by those seeing themselves as "next in line."

Crisis Situations

Little more can be said, except to categorize the crisis situations and possibly identify the elements of the crisis. It is very difficult to document the specifics of who is or is not going out of business because of the current situation. We will not know the full effect of this adjustment in agriculture until the adjustment period is past.

Knowingly, the previous discussions did not speak to specific situations of difficulty. Nor did they attempt to speak to the type of farming or age of farmer that is in most difficulty. Without much risk of being wrong, one can easily say that the perponderance of crisis situations in 1983 are highly leveraged grain farms operated by younger farm families. To be sure, however, other types of farms and older operators are also experiencing economic difficulty. The crisis situations can generally be categorized as shown in Table 3.

Table 3: CRISIS CATEGORIES
OHIO FARMS
1983

I. Part-time Farms

II. Commercial Farms

   A. Poor Management

   B. Rapid, highly-levered growth in late 70's

   C. Natural disaster situations

   D. Combination of A, B and/or C

If part-time farmers are in economic difficulty it is primarily due to reduced off-farm income. They never intended the farm to support the family and in fact have probably supported their habit, farming, by working in town. Their difficulties, if any, do not really stem from the farm economic climate. The commercial farmers, those that make their living from farming, can be in trouble for any number or combination of reasons; among which are poor management, natural disasters, and "too much/too fast." It is the elements of crisis on commercial farms that become important as one tries to assess the problem and determine what might be done to correct the situation.

Elements of the Crisis

There seem to be four elements interacting in Ohio's farm industry that result in varying degrees of economic strife or lack thereof. Table 4 isolates these elements.

Table 4: ELEMENT OF FINANCIAL CRISIS
OHIO FARMS
1983

I.	General Uncontrolled Economic Circumstance
II.	Localized Uncontrolled Economic Circumstance
III.	Overt Risk-Taking
IV.	Poor Management

The part of the economic stress that farmers are experiencing because of lower product prices and general economic recession is common to all producers. If this were the primary reason for the bankruptcies and foreclosures most if not all farmers would be "sold out," instead of the estimated five percent. A second element of the problem that is not farmer caused, but which could have been insured against, is that of poor crops resulting from one or two years of natural disasters, hail and/or a wet spring. The most difficult of these situations are instances of nearly complete loss of grain crops for two years. These are the heart-wrenching situations that everyone would like to correct, if it were possible. In many cases, however, there is little more that can be done. Debt has been restructured, payments have been delayed, reserves are gone, and so much money has been borrowed to cover losses that all hope of "ever getting back on tract" is gone.

The third and fourth elements, poor management and high risk, are to a large extent, the cause of a lot of crisis situations and are completely under the control of the farmer. Those individuals that took the risk, calculated or uncalculated, and incurred unreasonable amounts of debt to purchase high priced land and/or equipment were simply gambling and lost; gambling that product prices would remain high and land prices would continue to escalate. They were dealt a poor hand and need to accept the consequences of their willingness to accept high levels of risk. Risk, as we all know, creates opportunity for profit without any guarantees. Likewise those individuals that are in difficulty because of poor management (low yields, high costs, poor marketing, low efficiency, too big or too small, too much debt, etc.) need to accept the responsibility for their poor performance. The farm economy has in the past and will continue to weed out poor performers.